

Message Text

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SUBJECT: MONETARY POLICY AND SPANISH ECONOMIC SITUATION

REF: MADRID 8609, MADRID 9278

1. IN EXCLUSIVE INTERVIEW GRANTED TO MADRID DAILY, ABC, DEC 14,
BANK OF SPAIN GOVERNOR LOPEZ DE LETONA REVIEWED GOS
MONETARY POLICY AND SPANISH ECONOMIC SITUATION.
HE SAID THAT DECISION TO EXPAND CREDIT TO PRIVATE
SECTOR FOR LAST QUARTER OF 1976 (MADRID 8609) WAS
JUSTIFIED TO PROVIDE NECESSARY LIQUIDITY FOR SMALL
AND MEDIUM SIZE FIRMS, WOULD RESULT IN SMALLER CREDIT
EXPANSION IN 1976 THAN IN PREVIOUS YEARS, AND WOULD
NOT ADD TO INFLATIONARY PRESSURE. ALTHOUGH BANK
OF SPAIN PLANS CREDIT EXPANSION OF 327 BILLION
PESETAS DURING LAST QUARTER COMPARED WITH ONLY
370 BILLION DURING ENTIRE FIRST 9 MONTHS OF 1976,
LOPEZ DE LETONA SAID THIS WOULD MEAN CREDIT INCREASE
FOR YEAR OF NOT MORE THAN 22.5 PERCENT COMPARED WITH
24.1 PERCENT IN 1975, 26.6 PERCENT 1974, AND 27.5
PERCENT IN 1973.

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2. NOTING THAT SPAIN HAD NOT ADJUSTED ECONOMIC POLICIES
TO INCREASES IN OIL PRICE, LOPEZ DE LETONA SAID THAT
ONLY WAY OUT OF ECONOMIC PROBLEMS NOW FACING THE
COUNTRY IS THE ADOPTION AS SOON AS POSSIBLE OF SEVERE
AUSTERITY MEASURES. FOR THIS, BUSINESSMEN, WORKERS,

AND CONSUMERS MUST AGREE TO SHARE BURDEN AND "PAY THE PRICE OF A GRAVE ECONOMIC CRISIS." NEEDED, HE AFFIRMED, ARE FREE AND RESPONSIBLE LABOR UNIONS WHICH AGREE TO MANAGEMENT'S RIGHT TO HIRE AND FIRE AND ACCEPT THE NEED FOR REASONABLE PROFITS TO MAINTAIN EMPLOYMENT. FOR THIS, THE QUID PRO QUO IS FISCAL REFORM TO BRING ABOUT A MORE EQUITABLE INCOME DISTRIBUTION AND TAX BURDEN. LOPEZ DE LETONA CONCLUDED BY SAYING THAT WHILE BOTH POLITICAL AND LABOR REFORM ARE URGENT, HE DOES NOT BELIEVE THE REQUIRED LABOR-MANAGEMENT PACT IS POSSIBLE BEFORE ELECTIONS.

3. COMMENT: DURING AUGUST AND SEPTEMBER, CREDIT AVAILABLE TO THE PRIVATE SECTOR WAS SCARCE AND THE INTERBANK RATE (THE INTEREST RATE AT WHICH BANKS LOAN SHORT TERM MONEY TO EACH OTHER) HAD RISEN TO 20 PERCENT. TO EXPAND CREDIT, THE BANK OF SPAIN BEGAN DURING OCTOBER OFFERING 7-DAY LOANS TO PRIVATE BANKS AT A FIXED RATE OF 7 PERCENT. THIS RAPID CREDIT EXPANSION HAS HELPED TO KEEP SMALLER WEAKER FIRMS AFLOAT, AND IT IS IN CONFORMITY WITH THE GOVERNMENT'S POLICY OF CHANNELING MORE CREDIT TO SMALL AND MEDIUM-SIZED FIRMS FOR EMPLOYMENT REASONS (MADRID 9418). BUT IT HAS ADDED TO INFLATIONARY PRESSURES SINCE WITH INVESTMENT STAGNANT IT HAS GONE TO MEET WAGE BILLS, OTHER CURRENT EXPENDITURES AND PRESUMABLY CAPITAL FLIGHT. MOREOVER, ALTHOUGH THE GOS BEGAN INSTITUTING FISCAL RESTRAINT IN MID-YEAR (MADRID 9278), THE OVERALL PUBLIC SECTOR DEFICIT FOR 1976 WILL PROBABLY BE AT LEAST AS GREAT AS FOR 1975. WHILE LOPEZ DE LETONA'S REMARKS CONDITION THE PUBLIC FOR REQUIRED AUSTERITY MEASURES TO COME, THEY ARE ANOTHER STATE-LIMITED OFFICIAL USE

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MENT THAT ELECTIONS MUST COME FIRS. WE CONTINUE TO HEAR SOME CONTRARY VIEWS FROM THE PRIVATE BUSINESS AND BANKING COMMUNITY AND SOME OTHER SOURCES. ONE PRIVATE BANKER HAS MADE A STRONG ARGUMENT TO US THAT THE NEW GOVERNMENT WHICH COMES TO OFFICE AFTER ELECTIONS WILL HAVE SO MANY UNDECIDED POLITICAL AND LABOR ISSUES STILL ON ITS PLATTER THAT IT WILL BE IN LITTLE IF ANY BETTER POSITION TO TAKE STABILIZATION MEASURES THAN THE PRESENT GOVERNMENT IS NOW. BECAUSE OF THIS POLITICAL ARGUMENT AND THE ECONOMIC NEED, HE ARGUES THAT, DESPITE GOVERNMENT DISCLAIMERS, SUCH MEASURES SHOULD, AND EVEN PROBABLY WILL COME SHORTLY AFTER THE REFERENDUM. THUS DESPITE LOPEZ DE LETONA'S REMARKS, THE QUESTION OF WHEN THE GOVERNMENT MAY ACT REMAINS OPEN. STABLER

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